

## ADECA Audit Policy

### **RULE 305-6-1**

Statutory Authority: Code of Alabama 1975, Sections 41-22-1 through 27 and 41-23-6

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NOTE: When referencing the ADECA Audit Policy in publications, please reference it as follows:

<u>ADECA Audit Policy</u> , Alabama Administrative Code, Alabama Department of Economic and Community Affairs, Rule 305-6-1-.01 through .08 (1999)
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### **305-6-1-.01 Purpose.**

This ADECA Audit Policy implements the audit requirements of the Single Audit Act Amendments of 1996 (Public Law 104-156), dated July 5, 1996, and OMB Circular No. A-133 Revised (A-133), dated June 24, 1997 (this circular supersedes the previous edition of OMB Circular No. A-133 and rescinds OMB Circular No. A-128); establishes audit requirements for subrecipients that expend ADECA grant awards (federal and state financial assistance). It also implements the requirements of Government Auditing Standards (the Yellow Book) and defines ADECA subrecipient

and auditor responsibilities for implementation of and compliance with these audit requirements and audit standards.

### **305-6-1-.02 Background.**

These revised audit requirements are a result of the issuance of OMB Circular No. A-133 Revised (A-133) and interpretations of this and other regulations and audit standards.

### **305-6-1-.03 Definitions.**

For the purpose of these audit requirements, the following definitions apply to this policy.

- (1) **"ADECA awards (federal)" or "ADECA funding"** means assistance provided by ADECA in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property (**including donated surplus property**), interest subsidies, insurance, or direct appropriations, but does not include direct cash assistance to individuals. It includes awards received directly from ADECA, or indirectly through other units of state and local governments, nonprofit agencies, or for-profit entities; but does not include transmittals of State General Fund line item appropriations by the Legislature.
- (2) **"CFDA number"** means the number assigned to a federal program in the Catalog of Federal Domestic Assistance (CFDA).
- (3) **"Common Rule"** means Uniform Requirements for Grants and Cooperative Agreements to State and Local Governments issued by the Office of Management and Budget (OMB) or any subsequent revisions thereto.
- (4) **"Compliance Supplement"** means Circular A-133 Compliance Supplement issued by the OMB, its amendments, or any such documents as OMB or its designee may issue to replace it.
- (5) **"Generally Accepted Accounting Principles" (GAAP)** means those rules and procedures established by professional or authoritative bodies or conventions that have evolved through custom and common usage.
- (6) **"Generally Accepted Auditing Standards" (GAAS)** means those audit standards set forth in the American Institute of Certified Public Accountants Statements on Auditing Standards

- (7) **"Generally Accepted Government Auditing Standards"** means the Government Auditing Standards (the Yellow Book), issued by the Comptroller General of the United States.
- (8) **"Grant"** means an award of financial assistance, including cooperative agreements, in the form of money, or property in lieu of money, by the federal Government to an eligible subrecipient.
- (9) **"Grantee"** means the government to which a grant is awarded and which is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.
- (10) **"OMB"** means Office of Management and Budget.
- (11) **"OMB Circular No. A-21"** means Cost Principles for Educational Institutions issued by the OMB or any subsequent revisions thereto.
- (12) **"OMB Circular No. A-87"** means Cost Principles for State and Local Governments issued by the OMB or any subsequent revisions thereto.
- (13) **"OMB Circular No. A-102"** means Grants and Cooperative Agreements with State and Local Governments issued by the OMB or any subsequent revisions thereto.
- (14) **"OMB Circular No. A-110"** means Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations issued by the OMB or any subsequent revisions thereto.
- (15) **"OMB Circular No. A-122"** means Cost Principles for Nonprofit Organizations issued by the OMB or any subsequent revisions thereto.
- (16) **"OMB Circular No. A-133 Revised"** means Audits of States, Local Governments, and Nonprofit Organizations issued by the OMB or any subsequent revisions thereto.
- (17) **"Program-Specific Audit"** means an audit of one federal program as provided for in A-133 §.200(c) and .235 and Rule No. 305-6-1-.04 (1)(b) of this ADECA Audit Policy.
- (18) **"Recipient"** means local government or non-profit entity that receives federal awards directly from a federal awarding agency to carry out a federal program.
- (19) **"Subgrant"** means a federal award or financial assistance in the form of

money or property in lieu of money, made under a grant by a recipient (ADECA) to an eligible subrecipient.

- (20) **"Subgrantee"** means the entity that expends federal awards received from a pass-through entity (ADECA) to carry out a federal program, but **does not include** a vendor or an individual that is a beneficiary of such a program.
- (21) **"Subrecipient"** means the entity that expends federal awards received from a pass-through entity (ADECA) to carry out a federal program, but **does not include** a vendor or an individual that is a beneficiary of such a program.
- (22) **"Vendor"** means a dealer, distributor, merchant or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for use of beneficiaries of the federal program. Additional guidance on distinguishing between a subrecipient and a vendor can be found in A-133 §.210.

### **305-6-1-.04 Subrecipient Audit Requirements.**

This ADECA Audit Policy requires ADECA subrecipients that expend ADECA awards to follow the guidelines outlined below to determine the subrecipient's audit requirements. The statutory authority for the ADECA Audit Policy is the Code of Alabama 1975, Sections 41-22-1 through 27 and Section 41-23-6.

- (1) **Local Government, Institution of Higher Education, Hospital, and Non-Profit Organization Subrecipients**
  - (a) A subrecipient that expended \$300,000 or more of ADECA awards (federal) during its fiscal year accepts the responsibility to provide a single audit at the conclusion of that fiscal year. Guidance on determining ADECA awards (federal) expended is provided in paragraph 1(c) below. NOTE: A subrecipient that expended less than \$300,000 of ADECA awards (federal) during its fiscal year, but expended federal awards including ADECA awards (federal) **that total \$300,000 or more in the aggregate** during its fiscal year accepts the responsibility to comply with the audit requirements of this paragraph. The audit shall be made in accordance with the applicable requirements of this part [305-6-1.04(1)] and the reporting requirements of 305-6-1-.05 (2)(f) and:
    - 1. A-133.
    - 2. Generally accepted auditing standards established by the American

Institute of Certified Public Accountants (AICPA).

3. Any AICPA audit and accounting guides for:
    - (i) audits of local governmental units.
    - (ii) audits of not-for-profit organizations receiving federal awards.
    - (iii) AICPA statements of position 98-3, and any subsequent revision.
  4. Government Auditing Standards (the Yellow Book).
  5. Circular A-133 Compliance Supplement (and any subsequent revisions or issuances by OMB).
- (b) When a subrecipient expends \$300,000 or more of ADECA awards (federal) during its fiscal year under only one federal program and the federal program's laws, regulations, or grant agreements do not require a financial statement audit of the subrecipient, the subrecipient may elect to have a program specific audit conducted in accordance with the applicable requirements of paragraph (1)(a) above and the reporting requirements of 305-6-1-.05 (3)(e).
- (c) The basis for determining the aggregate amount of ADECA awards (federal) expended is generally based on the following: expenditure/expense transactions associated with subgrants or subgrant agreements;
- cost reimbursement contracts; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; **the receipt of federally donated surplus property**; and the receipt or use of program income (see A-133 § .205 for further guidance) on determining ADECA awards (federal) and other pass through or direct federal awards.
- A-133 §.205(g) Valuing non-cash assistance states: "donated surplus property shall be valued at . . . the assessed value provided by the Federal agency." The U. S. General Services Administration (GSA) has provided the following information. For Single Audit Act purposes, GSA determined that the assessed value of federally donated surplus property transferred to state agencies or qualified donees (subrecipients) is 23.3 percent (23.3%) of original acquisition costs. This rate will remain in effect until revised by GSA. Any subsequent revision by GSA of the method or rate to assess the value

of federally donated surplus property will be communicated to donees (subrecipients) at the time of the purchase or communicated by other means to be determined by ADECA.

(2) **For-Profit Subrecipients**

A-133 does not apply to for-profit subrecipients; however, the circular does state that **the pass-through entity is responsible for establishing audit requirements, as necessary, to ensure compliance with federal awards or audit requirements specified by federal program regulations.** Methods to ensure compliance for federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract period, and post-award audits. Therefore, **ADECA reserves the right to require for-profit entities who expend a total of \$300,000 or more from ADECA federal programs to have such programs audited or monitored as ADECA deems necessary by a means determined appropriate to each circumstance. This audit determination process will apply to all such for-profits unless a federal agency issues specific regulations that differ. In this case, the regulatory provisions would apply.**

(3) **Subrecipients Expending Less than \$300,000 of Federal Awards**

Subrecipients that expended less than an aggregate of \$300,000 of ADECA awards (total federal financial assistance) shall not be required to have an audit of these funds with applicable requirements stated above. However, ADECA reserves the right to utilize limited scope audits of ADECA awards (federal) to monitor subrecipients in accordance with A-133 §.400(d)(3). A limited scope audit is defined as agreed upon procedures in accordance with AICPA generally accepted auditing standards or attestation standards that are paid for and arranged by ADECA.

(4) **State General Fund Subrecipients**

(a) Subrecipients that expended an aggregate of \$300,000 or more of ADECA awards (State General Fund) during its fiscal year accepts the responsibility to **either**:

1. Provide an organization-wide audit at the conclusion of that fiscal year with the reporting requirements of 305-6-1-.05 (4)(a).

**or**

2. Provide a subgrant agreement(s) audit of these funds at the conclusion of that fiscal year with the reporting requirements of 305-6-1-.05 (5)(a).

(b) These audits shall be made in accordance with this policy and:

1. Generally accepted auditing standards established by the AICPA.
2. Government Auditing Standards (the Yellow Book).
3. Compliance with the ADECA subgrant agreement(s) concerning these funds.

NOTE: The above audit requirements do not apply whereby ADECA is a conduit for transmitting line item State General Fund appropriations by the Legislature.

**(5) Examples**

- (a) During its fiscal year, an ADECA subrecipient expended ADECA awards (federal) of \$50,000 under a subgrant agreement with ADECA Science, Technology and Energy Division and expended ADECA awards (federal) of \$275,000 under a subgrant agreement with the ADECA Workforce Development Division; therefore, the subrecipient expended an aggregate total of \$325,000 (\$50,000 + \$275,000) in ADECA awards (federal). As a result, the subrecipient shall have an audit in accordance with 305-6-1-.04 (1)(a) for its fiscal year.
- (b) During its fiscal year, an ADECA subrecipient expended ADECA awards (federal) of \$280,000 under a subgrant agreement with the ADECA Planning and Economic Development Division; \$5,000 in program income and \$20,000 in federally donated surplus property from the Surplus Property Division; therefore, the subrecipient expended an aggregate total of \$305,000 in federal funds. As a result, that subrecipient shall have an audit in accordance with 305-6-1-.04 (1)(a) for its fiscal year.
- (c) During its fiscal year, an ADECA subrecipient expended ADECA awards (federal) of \$100,000 under a subgrant agreement with the ADECA Law Enforcement and Traffic Safety Division and expended ADECA awards (federal) of \$75,000 under a subgrant agreement with the ADECA Workforce Development Division; therefore the subrecipient expended an aggregate total of \$175,000 in ADECA funding. This subrecipient shall not be required by ADECA to have an audit of ADECA awards unless it is deemed appropriate by ADECA [see 305-6-1-.04(3)].
- (d) During its fiscal year, an ADECA subrecipient expended ADECA awards

(federal) of \$100,000 under a subgrant agreement with the Planning and Economic Development Division, and expended \$225,000 of other federal awards either direct from a federal agency or indirect through another pass-through entity. Therefore, the subrecipient expended an aggregate total of \$325,000 in federal funds. As a result, that subrecipient shall have an audit in accordance with 305-6-1-.04 (1)(a) for its fiscal year.

### **305-6-1-.05 Auditor's Responsibilities.**

**General.** The audit shall be conducted in accordance with Government Auditing Standards (the Yellow Book) and the requirements of A-133.

(1) Government Auditing Standards. Auditors of ADECA subrecipients must meet and comply with the standards of the General Accounting Office (GAO) publication, Government Auditing Standards (the Yellow Book). These standards are:

(a) General Standards. The auditors must meet the four (4) general standards in Chapter 3 of GAO Government Auditing Standards (the

Yellow Book) which relate to the qualification of the audit staff, the audit organization and individual auditor's independence, the exercise of due professional care in conducting the audit and in preparing the related reports and the presence of a quality control program (internal and external).

1. Auditor Qualifications. The auditor should be proficient in the appropriate accounting principles and standards and in government auditing and must be:

(i) A certified public accountant (CPA) licensed in the State of Alabama.

**or**

(ii) An auditor employed by the Alabama Department of Examiners of Public Accounts.

2. Continuing Education and Quality Control Certifications. To ensure that the audit organization has complied with the GAO Government Auditing Standards (the Yellow Book) general standards for government auditing on qualifications (continuing education requirements) and on quality control, the ADECA Audit Section may periodically (if deemed necessary) require



the audit organization to submit:

- (i) A biennial certification (for example, on 1/1/97, 1/1/99, 1/1/01, etc.) that the audit organization's government audit staff has met the continuing education requirements as defined in the GAO's Interpretation of Continuing Education and Training Requirements (April 1991 or updated version thereto).
- (ii) A certification every 3 years (for example, on 1/1/95, 1/1/98, 1/1/01, etc.) that the audit organization has met the requirements defined in the GAO Government Auditing Standards (the Yellow Book) on quality control.
- (iii) Audit organizations seeking to enter into a contract to perform an audit in accordance with this audit policy should provide their most recent external quality control review

report to the ADECA subrecipient contracting for audit services.

(b) Field Work Standards for Financial and Financial Related Audits.

Auditors must follow the field work standards for financial and financial related audits outlined in Chapter 4 of GAO Government Auditing Standards (the Yellow Book). Standards of fieldwork incorporate the AICPA standards of fieldwork for financial audits, and do not restate them but rather prescribe supplemental standards of fieldwork needed to satisfy the unique needs of government financial audits.

(c) Reporting Standards for Financial and Financial Related Audits.

Auditors must follow the reporting standards for financial and financial related audits outlined in Chapter 5 of GAO Government Auditing Standards (the Yellow Book). Standards of reporting incorporate the AICPA standards of reporting for financial audits and do not restate them but rather prescribe supplemental standards of reporting needed to satisfy the unique needs of government financial and financial related audits.

- (2) OMB Circular No. A-133 Single Audit Requirements. The audit shall cover the entire operations of the subrecipient or, at the option of the subrecipient, such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered federal awards during such fiscal year, provided that each such audit shall encompass the financial statements and schedule of expenditures of federal

awards for each such department, agency, and other organizational unit, which shall be considered to be a nonfederal entity. The financial statements and schedule of expenditures of federal awards shall be for the same fiscal year.

- (a) Financial Statements. The auditor shall determine whether the financial statements of the subrecipient are presented fairly in all material respects in conformity with generally accepted accounting principles. The auditor shall also determine whether the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the subrecipient's financial statements taken as a whole.
- (b) Internal Control. In addition to the requirements of Government Auditing Standards (the Yellow Book), the auditor shall perform procedures to obtain an understanding of internal control over federal programs sufficient to plan the audit to achieve a low assessed level of control risk for major programs (major program determination process is defined in A-133 §.520).

1. Except as provided in paragraph 2 below, the auditor shall:

- (i) Plan the testing of internal control over major programs to achieve a **low assessed level** of control risk for the assertions relevant to the compliance requirements for each major program.
- (ii) Perform testing of internal control over major programs as planned in paragraph 1(i) above.

2. When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph 1. above are not required for those compliance requirements. However, the auditor shall cite a reportable condition (including whether any such condition is a material weakness), assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective internal control.

NOTE: This guidance on the audit requirement to document and test the internal control structure is from A-133, §.500(c).

- (c) Compliance. In addition to the requirements of Government Auditing

Standards (the Yellow Book), the auditor shall determine whether the subrecipient has complied with laws, regulations, and the provisions of subgrant agreements that may have a direct and material effect on each of its major programs:

1. The principal compliance requirements applicable to most federal programs and the compliance requirements of the largest federal programs are included in the compliance supplement.
2. For the compliance requirements related to federal programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those federal programs not covered in the compliance supplements, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the federal program by reviewing the provisions of the contracts and subgrant agreements and the laws and regulations referred to in such contracts and subgrant agreements.
3. The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.

NOTE: This guidance on the audit requirements for documenting and testing compliance is from A-133, §.500(d).

- (d) Major Program Determination: The auditor shall use a risk-based approach to determine which federal programs are major programs. This risk-based approach shall include consideration of:

1. Current and prior audit experience.
2. Oversight by federal agencies and pass-through entities (i.e., evidence of monitoring, etc.).
3. Inherent risk of the federal program (federal agencies with concurrence of OMB may identify federal programs which are higher risk. According to A-133 §.525, OMB plans to

provide this identification in the compliance supplement).

The auditor shall follow the four (4) step major program determination process as described in A-133 §.525. As part of this process, the auditor shall also consider the risk analysis criteria for federal program risk that is outlined in A-133 §.525. This section states that the auditor's determination process shall include an overall evaluation of the risk of noncompliance occurring which could be material to a federal program. As suggested in §.525, the auditor may wish to discuss risk factors associated with a particular ADECA federal program with the Audit Section staff and/or the applicable ADECA program manager. For example, oversight by ADECA through monitoring or other reviews may have disclosed significant problems with an ADECA program; this would indicate a higher risk. However, if the results of monitoring or reviews indicated no significant problems with a particular ADECA program, this would indicate a lower risk. ADECA encourages this communication when planning a single audit of an ADECA subrecipient to be performed in accordance with this Policy. One method that can alert auditors of high risk or potential high risk ADECA federal programs will be through the periodic letters to auditors of ADECA subrecipients from the ADECA Chief Auditor.

- (e) Audit Follow-Up. The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the subrecipient in accordance with A-133 §.315(b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.
- (f) Reporting on Single Audits of ADECA Subrecipients. The auditor's reports shall conform to the guidance provided in SOP 98-3 and any subsequent revision and state that the audit was conducted in accordance with A-133 and Government Auditing Standards (the Yellow Book). The minimum reporting requirements for a single audit conducted in accordance with A-133 §.505 are as follows:
  - 1. An independent auditor's report (opinion or disclaimer of opinion) on the financial statements and the supplementary schedule of expenditures of federal awards which states whether they are presented fairly in all material respects in

conformity with generally accepted accounting principles.

2. The financial statements required by generally accepted accounting principles.
3. The notes to the financial statements reflecting all the necessary information essential to fair presentation of the financial statements.
4. A schedule of expenditures of federal awards that meets the minimum requirements of A-133 §.310 (b) and includes the applicable activity defined in A-133 §.205.
5. An independent auditor's report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 and, when applicable.
6. An independent auditor's report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with the Government Auditing Standards (the Yellow Book).
7. A schedule of findings and questioned costs which shall include the following three (3) sections:

(i) **SECTION I** - Summary of the Auditor's Results. The summary of the auditor's results shall include:

(I) The type of report the auditor issued on the financial statements (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).

(II) A statement whether any material weaknesses in internal control were disclosed by the audit of the financial statements.

(III) A statement whether any reportable conditions in the internal control were disclosed by the audit of financial statements that were not considered material weaknesses.

(IV) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements.

(V) A statement whether any material weaknesses in internal control over major programs were disclosed by the audit.

(VI) A statement whether any reportable conditions in the internal control over major programs were

disclosed by the audit.

(VII) The type of report the auditor issued on the subrecipient's compliance with major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).

(VIII) A statement as to whether the audit disclosed any audit findings which the auditor is required to be reported in accordance with A-133 §.510(a).

(IX) An identification of major programs.

(X) The dollar threshold used to distinguish between Type A and Type B programs as defined in A-133 §.520.

(XI) A statement as to whether the subrecipient qualified as a low-risk subrecipient as defined in A-133 §.530.

(ii) **SECTION II** - A Schedule of Findings for the Financial Statements. This schedule shall include those findings, which are required to be reported in accordance with paragraphs 5.18 through 5.20 and Chapter 7 of Government Auditing Standards (the Yellow Book). SOP 98-3, Appendix E provides guidance for reporting for this section.

(iii) **SECTION III** - A Schedule of Findings and Questioned Costs for Federal Awards. This schedule shall include those findings and questioned costs, which are required to be reported in accordance with (A-133 §.510(a)). SOP 98-3, Appendix E provides guidance for reporting for this section.

(iv) Audit Finding Presentation. The auditor shall present audit findings in sufficient detail for the subrecipient to

prepare a corrective action plan and take corrective action and for ADECA to arrive at a management decision. The following specific information shall be included, as applicable, in audit findings:

(I) Federal program title, CFDA number, ADECA award number (if applicable) and year, name of federal agency, and name the pass-through entity (i.e., ADECA), if applicable.

(II) The criteria or specific requirements upon which the audit finding is based, including

statutory, regulatory, or other citation.

- (III) The condition found, including facts that support the deficiency identified in the audit finding.
  - (IV) Identification of questioned costs and how they were computed.
  - (V) Information to provide proper perspective for judging the prevalence and consequences of the audit findings (for example, whether the audit findings represent an isolated instance or a systemic problem). Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value.
  - (VI) The possible asserted effect to provide sufficient information to the subrecipient and ADECA to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
  - (VII) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
  - (VIII) Views of responsible officials of the subrecipient when there is disagreement with the audit findings, to the extent practicable.
  - (IX) Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up, i.e., fiscal year of audit and finding number such as 97-1, 97-2, 98-1, 98-2, etc.
- (3) OMB Circular No. A-133 Program-Specific Audit Requirements. When a subrecipient expends \$300,000 or more of ADECA awards (federal) during its fiscal year under only one federal program and the federal program's laws, regulations, or grant agreements do not require a financial statement audit of the subrecipient, the subrecipient may elect to have a program specific audit

conducted in accordance with the applicable requirements of A-133 §.235. These requirements state that at a minimum the auditor shall:

- (a) Financial Statements. Perform an audit of the financial statement(s) for the ADECA/federal program in accordance with Government Auditing Standards (the Yellow Book) and the applicable requirements of A-133.
- (b) Internal Control. Obtain an understanding of internal control and perform tests of internal control over the federal program consistent with the requirements for a major program.
- (c) Compliance. Perform procedures to determine whether the subrecipient has complied with laws, regulations, and the provisions of subgrant agreements that could have a direct and material effect on the federal program consistent with the requirements of a major program.
- (d) Audit Follow-up. Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the subrecipient, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.
- (e) Reporting on Program Specific Audits of ADECA Subrecipients. The auditor's reports shall conform to the guidance provided in SOP 98-3, and any subsequent revision and shall state that the audit was conducted in accordance with Government Auditing Standards and OMB Circular A-133. The minimum reporting requirements for a program specific audit in accordance with A-133 §.235(b) are as follows:

1. An independent auditor's report (opinion or disclaimer of opinion) on the schedule of expenditures of the federal award as to whether it is presented fairly in all material respects in accordance with the stated accounting policies.
- 2 Any notes reflecting all the necessary information essential to fair presentation of the schedule of expenditures of the federal award.
3. #ing error 3 was skipped check against origional.
4. An auditor's report on compliance with requirements applicable to the federal program and internal control over compliance in accordance with OMB Circular A-133.
5. A schedule of findings and questioned costs for the federal program and includes a summary of the auditor's results applicable to the audit of the federal program in the format consistent with paragraph (2)(f) 7.(i) above, and findings and questioned costs consistent with the requirements of (2)(f) 7.(iii) and IV above.

- (4) Organization-wide Audits of ADECA Subrecipients (ADECA Funds - State General Fund Only). The auditor shall perform the audit in accordance with



Government Auditing Standards (the Yellow Book) and this policy.

(a) Reporting on Organization-wide Audits of ADECA Subrecipients (ADECA Funds - State General Fund only). The minimum reporting requirements for this audit are as follows:

1. An independent auditor's report on an audit of the general purpose or basic financial statements that includes a statement that the audit was conducted in accordance with generally accepted government auditing standards or Government Auditing Standards (the Yellow Book).
2. An independent auditor's report on compliance and on internal control over financial reporting based on an audit of the general purpose or basic financial statements performed in accordance with the Government Auditing Standards (the Yellow Book).
3. The general purpose or basic financial statements required by generally accepted accounting principles (GAAP).
4. Notes to the financial statements reflecting all of the necessary information essential for fair presentation of the general purpose or basic financial statements.
5. An independent auditor's report on fraud, abuse, or an illegal act, or indications of such acts, when discovered (a written report is required); normally, such reports are issued separately.
6. An auditor's comment on the status of the correction of the prior year's findings and questioned costs.
7. A corrective action plan shall accompany the audit report and should be prepared on the subrecipient's stationery and signed by its signatory or other appropriate subrecipient official.

(5) Subgrant Agreement Audits of ADECA Subrecipients (ADECA Funds - State General Fund Only). The auditor shall perform the audit in accordance with Government Auditing Standards (the Yellow Book) and this ADECA Audit Policy.

(a) Reporting on Subgrant Agreement Audits of ADECA Subrecipients (ADECA Funds - State General Fund only). The minimum reporting requirements for this audit are as follows:

1. An independent auditor's standard report on an audit of the financial statements for the subject subgrant agreements

that includes a statement that the audit was conducted in accordance with generally accepted government auditing standards or Government Auditing Standards (the Yellow Book).

2. An independent auditor's report on compliance and on internal control over financial reporting based on the audit of the subject contract(s) in accordance with Government Auditing Standards (the Yellow Book).
  3. Balance sheet and statement of support, revenues and expenses and changes in fund balances or statement of revenues, expenditures and changes in fund balances, as applicable.
  4. Notes to the financial statements.
  5. An independent auditor's report on fraud, abuse or an illegal act, or indications of such acts, when discovered (a written report is required); such reports are issued separately.
  6. An auditor's comment on the status of the correction of the prior year's findings and questioned costs.
  7. A corrective action plan shall accompany the audit report and should be prepared on the subrecipient's stationery and signed by its signatory or other appropriate subrecipient official.
- (6) Audit Working Papers and Review. All audit working papers are subject to limited scope review by ADECA. The focus of this limited scope review will be primarily on the documentation of the audit steps necessary to meet the provisions of Government Audit Standards (the Yellow Book), the requirements of A-133 and the ADECA Audit Policy (working papers must also meet applicable AICPA statements on auditing standards). Although most, if not all, of the working papers will be reviewed, the working papers concerning the financial statement audit (other than those concerning the schedule of federal awards) will not be reviewed with the depth that is required for an external quality review. All working papers and reports shall be retained by the audit organization for a minimum of three (3) years from the date of the issuance of the auditor's reports to the subrecipient, unless ADECA notifies the audit organization in writing to extend the retention period. Said working papers shall be made available by the audit organization to ADECA upon request.
- (7) Illegal Acts. If, during or in connection with the audit, the auditor becomes aware of illegal acts, such acts shall be reported in accordance with the provisions

of the Government Auditing Standards (the Yellow Book).

### **305-6-1-.06 Other Subrecipient Responsibilities.**

(1) **General.** The subrecipient shall:

- (a) Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year (or pass-through entity number as applicable), name of the federal agency, and name of the pass-through entity.
- (b) Maintain internal controls over federal programs that provide reasonable assurance that the subrecipient is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with A-133 §.310.
- (e) Ensure that the audits required by this ADECA Audit Policy are properly performed and submitted when due. When extensions to the report submission due date are granted by the federal cognizant or oversight agency for audit or the ADECA Audit Section, notify promptly the federal clearing house and each pass-through entity providing federal awards of the extension.
- (f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.

(2) **Procurement.** In those instances where the State Examiners of Public Accounts do not perform subrecipient audits, subrecipients must follow procurement procedures in accordance with the specific federal program requirement, OMB's Common Rule (as adopted by ADECA), or OMB Circular A-110, as applicable. Subrecipients may use their own procurement procedures to competitively procure audit services so long as they do not conflict with the above stated requirements. In addition, subrecipient procurement procedures should allow small and minority audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals the maximum practical opportunity to compete for contracts awarded to fulfill

these various audit requirements.

- (3) **Audit Contract.** Each subrecipient shall enter into a formal written contractual agreement or an audit engagement letter with the auditor that, at a minimum, should reference A-133, Government Auditing Standards (the Yellow Book), and this ADECA Audit Policy and any other requirements that may be specified by federal program regulations. A copy of each subrecipient's written contractual agreement shall be provided to ADECA upon request.
- (4) **Summary schedule of prior audit findings.** If applicable, the subrecipient shall prepare a summary schedule of prior audit findings and submit the summary schedule with the reporting package defined in paragraph (6) below. The summary schedule shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph (a) of this section, or audit findings listed as no longer valid or not warranting further action in accordance with paragraph (d) of this section.
- (a) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- (b) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- (c) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
- (d) When the subrecipient believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
1. Two years have passed since the audit report in which the finding occurred was submitted to the federal clearinghouse.
  2. The federal agency or pass-through entity (i.e. ADECA) is not currently following up with the subrecipient on the audit finding.

3. A management decision was not issued.

(5) **Corrective Action Plan.** At the completion of the audit (if applicable), the subrecipient shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the subrecipient does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

(6) **Due Date/Submittal of Audit Report.** Within the earlier of thirty (30) days after receipt of the audit reports or nine (9) months after the end of the audit period, any ADECA subrecipient that meets the requirements of 305-6-1-.04 (1) shall submit the reporting package described below directly to the ADECA Audit Section (see address below). The reporting package shall include: one copy of the audit report (financial statements, schedule of expenditures of federal awards and applicable auditor's reports); corrective action plan discussed in paragraph (5) above (if applicable); and summary schedule of prior audit findings discussed in paragraph (4) above (if applicable). When the audit reporting package is not expected to be submitted to ADECA within nine (9) months after the end of the audit period, the signatory or other subrecipient official must specify delivery date of the report (in writing) to the Chief Auditor. The mailing address for submitting the reporting package and extension requests is as follows:

Alabama Department of Economic & Community Affairs (ADECA)

Attention: Chief Auditor

401 Adams Avenue

P. O. Box 5690

Montgomery, AL 36103-5690

(7) Subrecipients shall submit one (1) copy of the reporting package and a data collection form defined above and in A-133 §.320 (c) & (d) within thirty (30) days after issuance of the audit report to the central clearinghouse located at the following address:

Federal Audit Clearinghouse

Bureau of the Census

1201 E. 10th Street

Jeffersonville, Indiana 47132

- (8) As a result of State legislation (Ala. Act No. 94-414), all subrecipients who receive or disburse **any** public funds (state or federal) must submit a copy of the audit report to:

Alabama Department of Examiners of Public Accounts

ATTENTION: Audit Report Repository

P. O. Box 302251

Montgomery, Alabama 36130-2251

- (9) Subrecipients who expended ADECA federal awards, but expended less than an aggregate of \$300,000 in total federal or state awards, shall submit one (1) copy of the applicable subrecipient financial statement audit to:

Alabama Department of Economic & Community Affairs (ADECA)

Attention: Chief Auditor

401 Adams Avenue

P. O. Box 5690

Montgomery, AL 36103-5690

- (10) **Additional Subrecipient Requirements.** ADECA subrecipients that expended ADECA awards (federal) for any of their fiscal years and provided \$300,000 or more to their subrecipients shall:

- a. Ensure that their subrecipients have an annual audit that meets the applicable requirements specified in 305-6-1-.04 (1).
- b. Ensure that appropriate corrective action is taken within six (6) months after receipt of an acceptable audit report in instances of noncompliance with state and federal laws and regulations.
- c. Require each of their subrecipients to permit independent auditors to have access to the records and financial statements necessary to comply with this policy.

**NOTE:** For their subrecipients that expended less than an

aggregate of \$300,000 of ADECA financial assistance, ADECA subrecipients must monitor their subrecipients to ensure compliance in accordance with applicable laws and regulations.

- (11) **Access to Subrecipient Records.** Subrecipients shall grant ADECA, the federal grantor agency, the Comptroller General of the United States or any of their duly authorized representatives, access to any books, documents, papers, and records which are directly pertinent to that specific ADECA agreement, for audit, for examination, or review purposes.

### **305-6-1-.07 ADECA Responsibilities.**

- (1) **Audit Resolution.** ADECA has the responsibility for making a management decision on whether or not audit findings that could or do affect ADECA programs are sustained, the reasons for the decision, and the expected subrecipient action to repay disallowed costs (if any), make financial adjustments or take other action. Such management decision shall be made within six (6) months from the date ADECA receives an acceptable audit report. In unusual circumstances, the ADECA Director will consider requests to extend this period. In addition, this same resolution period shall apply to the subrecipient's responsibility for overseeing the resolution of audit findings and/or questioned costs that affect ADECA funded programs or their subrecipients. The ADECA Audit Section has the oversight responsibility to coordinate and ensure that all audit finding(s) that could or do affect ADECA programs are satisfactorily resolved within the time limit stated above. The ADECA Director will be the final authority within ADECA on the management decision of all audit findings. Where applicable, the management decision will describe the appeal process available to the subrecipient.
- (2) **Disallowed Costs.** In those instances in which a subrecipient cannot document the allowability of certain cited questioned costs that will meet the applicable federal or state regulations' requirements, ADECA will have no recourse but to disallow these costs. Once this determination is made, the subrecipient will be officially notified by the ADECA Director in writing of such a determination. The subrecipient will be given thirty (30) days from the date of the ADECA Director's letter to remit the amount disallowed. The remittance must be from nonfederal funds.
- (3) **Debt Collection.** The debt collection process begins with the ADECA Director's letter to the affected subrecipient and establishes the debt owed to ADECA as a result of costs that were disallowed during the audit resolution process. The subrecipient must remit the disallowed costs or acceptable repayment plan to ADECA within thirty (30) days from the date of the

ADECA Director's letter. Those subrecipients who do not remit disallowed costs or an acceptable repayment plan within this time frame may be charged interest (at the applicable prime rate) on the debt starting the day after the due date of the remittance.

- (4) **Sanctions.** Those subrecipients who do not remit disallowed costs within the time specified in the ADECA Director's letter and who do not submit a proper audit to meet the requirements of this policy will have certain sanctions imposed upon them as indicated below:

- (a) Those subrecipients who do not remit disallowed costs within the time specified by the ADECA Director's letter may be charged interest (at the applicable prime rate) on the outstanding balance starting the day after the due date of the remittance. In addition, certain other sanctions may be applied such as:

1. Suspending funding for existing ADECA funded programs.
2. Denying participation in any future ADECA funded programs for an applicable period of time.
3. Submitting the names of subrecipients and principal parties to the applicable federal grantor agencies, recommending that these names be included in the U. S. General Services Administration's publication Lists of Parties Excluded From Federal Procurement or Non-Procurement Programs.

**NOTE:** There may be rare or isolated instances where extreme and/or unusual circumstances caused the disallowed costs or would present a significant barrier to the repayment of the disallowed costs. In any such instance, the ADECA Director may choose to forego the sanction options

listed above by instead requiring a resolution that would be more appropriate or mitigating to the individual situation.

- (b) In cases of continued inability or unwillingness of a subrecipient to have a proper audit that meets the requirements of this ADECA Audit Policy, ADECA will consider one or all of the following sanctions:
1. Withholding a percentage of ADECA awards (federal) until the audit is completed satisfactorily.
  2. Withholding or disallowing overhead costs.



3. Suspending federal awards until the audit is conducted.
4. Terminating the ADECA award (federal).

NOTE: Any federal program that has specific requirements regarding sanctions will require compliance with these sanction procedures in lieu of, or in addition to, those requirements, as applicable on a case-by-case determination by ADECA.

- (5) **Use of ADECA Auditors.** Nothing contained in these audit requirements shall be construed to mean that ADECA cannot, in certain situations, utilize its auditors regarding limited scope audits of various ADECA funds. Audits of this nature shall be planned and carried out in such a way as to avoid duplication or not to exceed the audit coverage limits as stated in A-133.

### **305-6-1-.08 Contact Person.**

Any question or comment should be addressed to the Chief of the ADECA Audit Section by calling (334) 242-5195.

Correspondence should be addressed as follows:

Chief, ADECA Audit Section  
Post Office Box 5690  
Montgomery, Alabama 36103-5690

or

Chief, ADECA Audit Section  
401 Adams Avenue  
Montgomery, Alabama 36130

Information may also be faxed to: (334) 353-4006.

**Author:** Jim Massey.

**Statutory Authority:** Code of Ala. 1975, 41-23-6.

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